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C O N F I D E N T I A L TAIPEI 000278

SIPDIS

DEPT FOR EAP/TC, NP/ECNP  
DEPT PLEASE PASS AIT/W

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SUBJECT: ACTION REQUEST - U.S. SEMICONDUCTOR EXPORT CONTROLS

Classified By: AIT Director Douglas H. Paal, Reason 1.5 (b/d)

1. (U) This cable is an action request. See paragraph 4.

2. (C) Ministry of Economic Affairs (MOEA) Investment Commission Deputy Executive Secretary Emile Chang asked AIT to provide information on U.S. export regulations for semiconductor manufacturing equipment sold to entities in the PRC. Taiwan currently prohibits any semiconductor-manufacturing investment in the Mainland for technology that produces chips with feature size below the 0.25-micron level. For investment at the 0.25-micron level or above, investment is allowed upon approval from the MOEA's Investment Commission. Taiwan Semiconductor Manufacturing Corporation (TSMC) wishes to invest in more advanced manufacturing capability in the PRC and recently informed MOEA that the U.S. has allowed the export of manufacturing equipment capable of producing chips at the 0.18-micron level.

3. (C) Based on informal consultation with NP/ECNP, AIT/T briefed Chang on the basic principles of U.S. export control regulations in this area. We confirmed that the U.S. government had approved export licenses for 0.18-micron level manufacturing equipment destined for firms located in the PRC. The Taiwan government is considering revision of its regulations governing semiconductor investment in the PRC to allow investment with more advanced technologies subject to review and approval by the Taiwan government. It wants to maintain consistency with relevant U.S. regulations. As a result, MOEA's Chang asked U.S. government views on Taiwan reducing its minimum feature size limit from 0.25 to 0.18 microns. All Taiwan investment to China, including investments involving 0.18-micron technology, would still require approval by the Taiwan government.

4. (C) ACTION REQUEST: AIT/T asks Department to provide guidance on this request. Please advise whether U.S. government would have any objections to Taiwan lowering its minimum feature size limit to 0.18 microns for semiconductor manufacturing investment in the PRC.

Background on Taiwan's PRC Investment Control Regime

5. (U) The Taiwan government has a fairly rigorous application process for investment in the PRC. Standards for semiconductor manufacturing investment are even stricter. Semiconductor investment applications are reviewed by various government agencies, including the Investment Commission, the Bureau of Foreign Trade and the Mainland Affairs Council. Many of the factors considered relate to Taiwan's domestic economy. Firms must have a certain level of investment in more advanced semiconductor manufacturing in Taiwan. The Taiwan government also considers the plan's impact on Taiwan's labor situation.

6. (U) Technology transfer is another key factor. A Taiwan firm may only invest in Mainland entities if it will have controlling interest in the enterprise. The Taiwan firm must keep the rights to all intellectual property developed by the Mainland enterprise. In addition, after approval, the Taiwan firm must regularly submit a written report to the Taiwan government that includes any changes in the technology used, the acquisition of any intellectual property rights, the plant's capacity utilization, and details on domestic and export sales.

PAAL